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Report Highlights:

The Bulgarian food processing sector has developed over the last two years due to gradually increasing consumer income and development of the retail and food service sectors. In 2002, local food sales amounted to \$2.1 billion. The major challenges to the food industry are adopting EU and international sanitary, hygiene and quality standards (GMP, ISO, HACCP). The GOB policy toward the food processing industry is to attract investment and promote exports of typical Bulgarian food products.

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Summary

The food processing sector in Bulgaria is recognized as one of the most dynamic and fast growing economic sub-sectors. Bulgaria is rich in agricultural resources and has a favorable climate.

The ability to produce good quality produce and relatively inexpensive labor are the major factors behind development of the food industry. Major exported products are grains, sunflower, vegetable oils, dairy products, wine, tobacco, processed fruits and vegetables, essential oils, and herbs. Bulgaria imports red meats, protein feed, poultry, seafood, tree nuts, fresh fruits and vegetables. It is estimated that the local food processing industry sources (on average) 30 percent of its raw materials from imports.

Since political/democratic changes in 1989, the food industry has undergone the process of privatization and restructuring. Currently, 85 percent of food industry assets are in private hands. Emerging new private enterprises are a dynamic part of this sector. Over the last two years, most food companies reported stabilization of their financial status and market presence. Active investment along with introduction of modern quality control systems and food safety standards have augmented growth. These food manufacturers are developed in parallel with more active marketing, expansion of product range and brands promotions.

Due to Bulgaria's future accession to the EU, there is an active trend toward modernization, upgrading and adaptation of local facilities to EU requirements. This includes sanitary and hygiene standards, food safety standards and quality management systems (ISO, GMP, HACCP). The final goal of local food companies is not only to be ready for EU accession (currently set at 2007) but also to be competitive within the EU market.

Food Industry Size and Development

As of May 2003, Bulgaria has about 8,000 food production/processing companies of which 1,343 companies have food production/processing as a major line of business and the rest have this business as a side activity. This is 150 more than in 1999. Bulgarian food processors' registration is required by the Food Law (Official Gazette of October 18, 1999) but not all food processors are registered yet. This way the GOB hopes to establish an official register of food producers which will be the basic database for any government food related control activities.

On average, about 60 percent of the number of food companies are estimated to work in the "grey" sector due to not stringent control of the regulators. These are small sized, so they are estimated to account for 20-25 percent of the market size. This percent varies among various sub-industries with the highest, reportedly, being in the beverage industry, and the lowest being in the dairy industry.

The fastest growing industry was the meat processing sector which realized 30 percent growth

(by 90 companies) for the period 1999-2002. The meat processors were followed by cereal food producers which increased 18 percent with 68 new companies by 2002. Industries which registered a decline in the number of companies were oils/fats manufacturers. At the same time, there was a parallel expansion of already established companies, mainly through new investment.

The largest number of registered companies exists in the cereal food industry (439) followed by meat processors (274) and beverages producers (186). The lowest number of companies exist in the fish/seafood industry (10), sugar production (7), and specialty baby foods and diet foods (6 companies).

Another type of food production operations are those firms for which food production is not a major line of business. For example, "Miss Caprice" Pcl. is a fast food/restaurant chain/catering company, but at the same time, it is a significant producer of frozen pizzas and lasagna. Similarly, the company "Iztomevit" which has a chain of confectionary cafeterias (called "Nedelia"), is also a producer of a number of confectionary products. The share of this type of dual business entity in the food industry is estimated at 50 percent.

Officially registered food sales in 2001 were about \$1.5 billion in value. According to trade sources, these sales are actually estimated at \$2.0 billion (including taxes) due to unreported gray market sales. Initial estimates for 2002 are for food sales to expand slightly to \$2.15 billion. Over the last 3 years, food sales registered constant annual growth of on average 7.5 percent. The highest growth was registered in meat and meat products sales, 17 percent, and in bakery/cereals food sales, 15.2 percent.

Table #1. Food Industry - Sales by Sector in 2001 in percentage

Food Industry - Sales by Sector in 2001 in percentage	
Bakery products and cereals	27.1
Beverages	26.8
Fruits and Vegetables	10.1
Meat and fish	18.6
Dairy	8.1
Vegetable Oil	8.1
Sugar and Confectionary products	1.2
Total Food Sales	100
Source: Noema Ltd. Research	

- The highest value of sales in 2001 were registered by the beverage manufacturing industry which includes alcohol and soft drinks. Over the last 3 years, this industry faced several difficult trends: on one hand, the officially registered alcohol consumption declined, on the other hand, the "gray" production has reportedly increased (alcohol without mandatory excise labels). Therefore, although there are no official statistics, it is estimated that alcohol consumption and production has stabilized and even increased. Local alcohol producers expanded their product lists and many new brands were released on the market. Alcohol consumption in the HRI (hotel, restaurants, institutions) sector grew and currently this segment accounts for about 55 percent of imported foreign alcohol and 40 percent of locally manufactured alcohol out of total alcohol consumption. In 2001, one of the leading local alcohol producers (SIS Industries) opened the first facility for processing of grains into spirits. Since that time, imports of spirits have declined. However, local spirits production has stimulated faster development of small illegal alcohol manufacturers.
- The soft drink industry saw dynamic development related to the fast growth in production and consumption of mineral water; the release of new trade marks and brands; emerging production of table water; and new types of soft drinks introduced to the market: herbal drinks, fruit cocktails, punches, energy drinks, ice tea, and new assortments of natural juices.

The Bulgarian food industry consists of the following sub-sectors:

- meat and meat products;
- fish/seafood;
- canned fruits and vegetables;
- animal fats and vegetable oils;
- milk and dairy products;
- grains and cereal products;
- pet foods;
- bread milling, confectionary and other cereal products;
- sugar, chocolate and cocoa products;
- food additives;
- diet foods;
- alcohol: wine; beer and malt manufacturing;
- mineral water and soft drinks.

In addition to the "commercial" food industry, there has been a fairly large sector of home prepared foods which was traditional in prior to 1989. Consumption of home prepared foods competed with commercial processors until 2000. Over the last 2-3 years, this consumption declined, and it is no longer a factor in food consumption in larger towns and cities. This type of consumption was partly substituted with increased purchases in urban areas of frozen foods: vegetables, fruits, pizza, dough, semi-ready meals, etc. In smaller towns and villages, the rural population still relies on home prepared foods for the winter season: mainly canned vegetables for cooking, pickles, fruit compotes, jams, marmalades and juices. In villages, the rural population also relies on home produced eggs, milk, cheese, and meat. This type of so called "on-farm" consumption sometimes reaches considerable shares in overall food consumption. For example, on-farm milk and eggs consumption is estimated at 40 percent annually. On average, food consumed on farms are estimated at 25 percent of total national food consumption. This pattern of consumption is related to a different life style, and especially in villages, it is not expected to change in the near future.

Agricultural and Food Foreign Trade

In 2001, the proportion between food production and food imports was 5:1 or production of \$1.47 billion and imports of \$293 million. Thus, roughly 20 percent of Bulgaria's food needs are satisfied by imported products.

Overall, in the period 2000-2002, food imports have grown, on average 7.2 percent annually. Food exports stabilized level over the last 4 years at 0.9 percent annually. Traditionally, Bulgaria exports about 25 percent of its food production or \$384 million in value for 2002 (Chapters 1-24 in Customs Code).

The United States exports to Bulgaria poultry, red meats, vegetable oils, seafood, tree nuts and snacks. Total food and agricultural imports in 2002 were \$15 million, however, it is estimated

by trade sources at about \$25 million with a significant amount of transshipments. For the first three months of 2003, U.S. ag exports increased 59 percent with the highest increase registered for seafood (mackerel and herring). For the first time, in early 2003, poultry sales are surpassed by seafood.

According to Bulgarian Customs, the United States is among the leading suppliers of meat, poultry and fish (total \$5.0 million in 2002). The U.S. also ranks second after the United Kingdom as a supplier of alcohol to the Bulgarian market, \$1.2 million in 2002.

Bulgaria exported food and agricultural products in 2002 as follows:

- grains, \$130 million;
- wine, \$53 million;
- processed fruits and vegetables, \$47 million;
- meat and meat products (lamb, sheep, geese and ducks products), \$43 million.

Major import product categories in 2002 were:

- sugar and confectionary products, \$72 million;
- meat and meat products (poultry, beef and pork), \$50 million;
- animal fat and vegetable oils, \$45 million;
- fresh fruits and vegetables, \$43 million.

Bulgaria exports to the United States (U.S. Customs data):

- tobacco, \$20 million;
- dairy products, \$6.8 million;
- fish (mainly sturgeon), \$1.3 million;
- processed fruits and vegetables, \$4.6 million;
- essential oil, \$2.0 million.

Total Bulgarian exports to the U.S. grew from \$26 million in 2000 to \$42 million in 2002. For the first three months of 2003, Bulgarian exports to the U.S. have increased 9.2 percent.

Imports of agricultural and food products are not subject to license. Most importers are required only to register with Customs. The exception is products of animal origin which require veterinary import permit. The VAT on all imports are 20 percent. Excise duties are mandatory for beer, wine, alcohol, tobacco, coffee and tea. Except for spirits and wine, no other beverage or food product requires special permission for retail sales.

At the same time, import duties (for non-EU and non-CEFTA countries) for most food products are high, in many cases prohibitively high. For example, frozen chicken leg quarters face an ad valorem duty of 75 percent and a specific duty of \$500 Euro/MT. In the last two years, 2002 and 2003, the GOB has been trying to protect inefficient local producers via safeguard measures such as seasonal duties for almost all locally produced fresh fruits and vegetables. The same policy is followed toward meat and poultry. As a result, the respective processing industries rely on lower quality inputs. These factors make the final Bulgarian product not as competitive, not

exportable and more expensive for local consumers.

Table #2. Strengths and Weaknesses of U.S. Food Products in Bulgaria

Strengths and Weaknesses of U.S. food products in Bulgaria	
Strengths	Weaknesses
Opportunities for food promotions and ability to fund marketing programs in country	Relatively low purchasing power
High popularity of U.S. products in Bulgaria	Ongoing "competition" from home prepared foods in rural areas
Despite growing quality of locally produced foods, overall local quality remains low	EU competition: they face much more liberal bilateral trade regime and EU funded food programs
Insufficient capital for local food producers limits efficient food marketing and distribution	Weak legislative protection of brand names and labels - possible counterfeit of alcohol and some foods
Sufficient information about local food additives, shelf life, and expiry dates on the labels	
Guaranteed local origin of the product	
Source: Noema Ltd. Research, 2003	

Enter Strategy on the Bulgarian Market

Steps for entering the market

The best approach for a foreign company to enter the local market is to engage a local representative who has direct contacts with potential clients and can be responsible for overall business management. The representative or country manager should be well aware of local business practices, legislative and regulatory environment and be conversant with changing regulations and laws. Due to "grey" sector or illegal trade, it is recommended that foreign companies conduct due diligence and undertake careful and detailed research on their future local representative.

Market Structure

The usual marketing chain for U.S. products is:

- 1/ U.S. exporter
- 2/ Bulgarian importer, distributor
- 3/ Bulgarian distributor/wholesaler
- 4/ Local retailer

Over the last 3-4 years, a number of local and foreign retail companies entered the market.

Local Retail Chains/#Outlets		Foreign Retail Chains/#Outlets	
"Fantastico"	21	"Metro"	7
"Centrokom"	4	"Billa"	11
"Evropa"	9	"ENA"	5
"Oasis"	4	"Ramstore"	3
"Picadilly"	3		
"Missota"	3		
"Bonjour"	29		
Source: Noema Ltd. Research 2003			

A typical feature of the supermarkets is that they are mainly local companies. Supermarket chains with the exception of "Bonjour" are Bulgarian companies. However, hypermarkets are all of foreign origin - German, Austrian, Greek and Turkish.

Most supermarkets and hypermarkets enjoy steady growth and good development. In 2000, hypermarkets had less than 10 percent of total sales from food. But in late 2002, this market share grew to 24 percent. In larger cities, this market share reaches almost 35 percent. At the same time, smaller groceries, mom and pop shops, street kiosks, etc. are purchasing their own retail stocks predominantly from hypermarkets like "Metro".

Most food producers target both the local market and exports. In their efforts to gain higher domestic sales, they have direct contacts with retail chains, both supermarkets and hypermarkets. Food companies point out two major advantages of selling their products via large local retail chains:

- such sales cover the entire territory of the country and often guarantee a market presence nationwide;

- products which are market leaders or bestsellers with good prospects are exported to the retail stores of the same chains in other countries (mainly in other Central and East European countries, and Russia.)

On the other hand, many food companies point out some drawbacks when selling via retail chains. Among those are the long repayment periods, sometimes up to 90 days which puts producers/traders in difficult financial situation. Local commercial banks do not accept contracts with retail chains as a guarantee/collateral for releasing short term loans. In addition, traders/producers have to pay significant amounts for shelf space or slotting fees and finance promotions without any guarantee of return. This makes access for smaller/medium (SME) size companies very difficult. At the same time, the local retail market consists of mainly SME-sized companies.

Bulgaria still does not have a well developed nationwide distribution network for food products. The lack of such developed distribution companies have forced many food producers/processors to purchase their own transportation vehicles and to develop their own distribution systems. In some subsectors such as alcohol, and meat and meat products, nationwide distribution companies have started to emerge. However, those producers who work with specialized distribution networks continue to rely in part on their own distribution efforts or work with several distributors in order to cover the total market and expand sales.

However, the trend in recent years is for larger food companies to use specialized wholesale distributors. The same is true for retailers, who therefore reduce the number of suppliers. There is an ongoing process of concentration in the distribution industry. For example, the gas stations "Shell" which used to work until recently with about 1,300 smaller suppliers, currently has focused on only 5-6 larger distribution companies.

In some subsectors, such as frozen foods, distribution companies simply do not exist. This is related mainly to the poorly developed cold chain and lack of refrigerated truck. Thus, this does not allow for efficient distribution of frozen foods.

Companies's Profile

In 2001, there were 71 large ("large" is with net sales revenue above \$5.0 million) food producers which accounted for 53.2 percent of all food sales. In 2002, preliminary data shows that this number was 76 and the market share of the top ten companies was 51.7 percent. All top ten companies in the food industry are foreign investors which either have joint ventures with Bulgarian partners or are majority holders.

Table #3. Top Ten Food Companies profile, 2001

Top Ten Food Companies profile, 2001			
Company name	Sub-sector	Market channels	Major business
Kraft Foods	Confectionary and sweets	Retail	Importer, producer, exporter
Amylum Bulgaria	Cereals	Retail chain, HRI	Importer, producer, exporter
Kamenitza	Beer	Retail chain, HRI	Importer, producer
Sugar Plants Gorna Orinahovitza	Sugar	Retail chain, HRI	Importer, producer, exporter
Zagorka	Beer	Retail chain, HRI	Importer, producer
Papas Oil	Vegetable Oil	Retail chain, HRI	Importer, producers, exporter
Sofia Beverage Company	Soft Drinks	Retail chain, HRI	Importer, producer
Nestle Sofia	Confectionary	Retail	Importer, producer, exporter
Danone Serdika	Dairy	Retail	Importer, producer, exporter
Chipita Bulgaria	Snacks	Retail	Importer, producer, exporter
Source: Noema Ltd. Research, 2003			

The top ten food companies in Bulgaria have stable development with positive growth in 1999-2001 ranging from 11.2 to 64.0 percent. The highest growth was registered by Papas Oil, Nestle Sofia and Chipita Bulgaria. Three of the top ten companies produce confectionary products and another three are grain processors and produce cereal products.

Table #4. Sales of the top ten food companies in million U.S. dollars in 1999-2001 and 2002 (estimate)

Sales of the top ten food companies in 1000 U.S. dollars in 1999-2001 and 2002 (estimate)					
Company name	1999	2000	2001	Average growth 1999-2001 in percent	2002 E
Kraft Foods	57.1	71.3	83.3	20.9	89.9
Amylum Bulgaria	44.3	66.4	78.3	33.9	85.2
Kamenitza	54.4	58.7	74.3	17.2	70.9
Sugar Plants	58.7	60.1	72.2	11.2	74.9
Papas Oil	22.6	30.1	58.8	64.0	68.7
Zagorka	41.1	51.9	56.8	17.9	61.2
Sofia Beverage Company	40.6	56.1	56.7	19.6	59.4
Nestle Sofia	24.3	29.4	49.8	45.2	53.7
Danone Serdika	34.9	44.3	45.5	14.7	47.6
Chipita Bulgaria	16.8	26.5	43.5	60.7	48.7
Source: Noema Ltd. Research					

Most direct foreign investment in the recent years came from the Netherlands and Greece. About half of the largest food producers in the country are of Greek origin or with Greek shares. They are concentrated mainly in beer production (Zagorka, Kamenitza); and in cereals and snacks manufacturing (Chipita Bulgaria and Sofia Mel). The latest foreign investment is of Dutch origin - Unilever Bulgaria which declared their plans to invest about \$12.0 million in local margarine production by the end of 2003. Unilever has reportedly purchased two local brands: "Olineza" for mayonnaise and sauces; and "Kaliakra" for margarine (a facility located in the town of Dobrich). According to the company's public plans, these two brands will be produced for the local market and for exports. The top two companies in the food sector with U.S. capital investment are Amylum and Kraft Foods.

In some sub-sectors, direct foreign investment is negligible. Alcohol and wine manufacturing are entirely under Bulgarian ownership. In natural juices and mineral water production (except for the Coca Cola presence) all production operations are locally owned.

Meat Processing Industry

The meat industry is one of the most dynamic sectors in Bulgaria. Over the past two-three years, a number of new companies emerged in this sub-sector, mainly in sausage manufacturing. The reason for this development is the increased consumption of ready and semi-ready convenience foods. In 2003, several new types and brands of sausages are expected to be released to the market (Saatchi, Hit).

The raw meat supply to the processing industry is closely related to price and quality of raw meat. Usually, when local meat has a high price, processors prefer to use imported meat. Therefore, the meat processing industry is the prime consumer of almost all turkey imports, quality pork and beef as well as all necessary additives, especially soy products (soy flour, protein, isolates etc.). All of these inputs are imported. Local sources do not offer good choice of casings (just one local producer exists: "Assenova Krepost") or good quality. Therefore, sausage casings are also imported from Germany, France, Spain, etc.

The local meat processing industry faces constantly fluctuating prices of raw meat, lack of constant and reliable local meat quality; and lack of locally available additives. Therefore, these gaps are usually filled by imports of meat and additives.

Another challenge to local meat processors are the EU's sanitary and hygiene standards which the industry should adopt by the end of 2003. After this period, the National Veterinary Service will shut down meat processors which fail to meet these EU criteria. Currently, there are three local facilities licensed to export processed meat to the EU using only imported meat (Tandem-B, Nikas, and Mekom). The top processing companies in this sector are:

- Mesokombinat Lovetch (a part of Boni Oborot Holding, sales of \$20 million in 2001);
- Tandem-B (2001 sales of \$8.0 million);
- Boni Commerce (2001 sales of \$8.0 million);
- Interfoods (2001 sales of \$5.0 million);
- Nikas, Bravo, Solaris etc.

Seafood Processing Industry

The seafood processing industry has grown rapidly over the past two years. This is related to higher demand for total seafood, especially fish, and increased supply both from local catch (reportedly, about 15,000 MT) and from imports. Total fish consumption in the country is rather low (3.5 kilos per capita per year) compared to the EU and the U.S., due to relatively high prices. But fish consumption has registered an average of 6 percent annual growth over the past three years. Imports are growing and this trend is expected to continue in 2003. The largest volume in imports is in mackerel and herring. They are the most popular local species and sell at lower prices. These imports are on average, 18,000 MT annually over the last 3 years. A slight growth of 2 percent is expected for more exotic types of fish and seafood such as salmon, crabs, and shellfish. These more expensive products are sold mainly via the food service outlets and

only secondly via retail chains. The trend is to offer a wider assortment of seafood, in an assortment of packaging, plus more ready-to-cook products. These new items are produced mainly from imports.

In 2003, Bulgaria expects increased exports of seafood (5,600 MT in 2002) to the EU due to the removal of the export ban in 2002. This ban was imposed a year earlier due to not satisfactory sanitary conditions at fish farms. Seafood deli items account for 3 percent of total exports (2,200 MT); followed by frozen fish (1,300 MT). Bulgaria also exports good quality sturgeon fish caviar to the U.S., about 2.0 MT per year.

The top three local companies in this industry are:

- P.A.L - BG;
- Chernomirski Ribolov Bourgas;
- Slavianka;
- Atlantic, Bulrib, Diavena, Electa etc.

Dairy Processing Industry

Bulgaria should be ready to fully meet the EU sanitary and hygiene norms in the dairy industry by 2010. Facilities which are able to meet EU requirements by 2007 will be able to work both on the local and the EU market. Dairies which can not adopt the EU standard by 2007, may continue to work after 2007 for three more years but they must only sell their products locally. After 2010, all working dairies must completely meet EU requirements.

This process of modernization and upgrading requires significant capital investment and management and is rather painful for the local dairy industry. For example, mass veterinary inspections in the beginning of 2003 resulted in closure of 25 percent of all dairies as not meeting the EU standards. The major reasons are lack of cooling equipment for fresh milk, poor hygiene conditions, possible contamination of the product, excess water content in fresh milk, and shorter than required aging period for processed dairy products.

Capital investment is difficult due to the high cost of money (12-18 percent on bank loans) and lack of access of small/medium sized companies to the EU-SAPARD investment and subsidy program as well as other foreign and local investment funds. Dairy exporters also face difficulties related to the protection of their trade marks and brands. For example, Bulgarian exporters are not able to export under the label "Feta" for "Bulgarian white cheese" since these two appellations are already patented by Greek and Turkish parties. Currently, there are 10 dairies approved to export their product to the EU, mainly cheeses.

The top three dairy companies in Bulgaria are:

- Danone Serdica (2001 sales of \$21.0 million);
- Delta Bulgaria (2001 sales of \$11.0 million);
- Vitalact (2001 sales of \$5.0 million).

Fresh and Processed Fruits and Vegetables

There is a steady trend toward reduction in exports (declining 13 percent for fruits and 17 percent for vegetables in 2002 vs. 2001) and a similar trend toward an increase in imports of fresh fruits and vegetables. This is related to low efficiency of local producers. Most producers are small, fragmented, lack capital, equipment and know-how; and rely on expensive energy sources and inputs. On the other hand, the close proximity of Turkey and Greece where fresh fruit and vegetable production has solid corporate commercial structures, allows profitable imports and a highly competitive market in terms of price, quality, consistency, etc. For example, the largest fruit and vegetable wholesale market in Sofia shows imports account for 60 percent of total turnover in the summer/fall period; and for 80 percent in the winter/spring period. Most processors/canning factories also prefer to use imported product in order to secure their raw materials.

Locally produced frozen, dried fruits and vegetables as well as juices are more competitive. The most competitive are fruit varieties of wild forest fruits and small fruits - strawberries, blackberries, blueberries, raspberries, and sour cherries. The most exported vegetables are red peppers in various forms.

The top three local manufacturers are:

- Nash Dom Bulgarian Holding (2001 sales of \$12.0 million) - production of compotes, pickles and cans, mainly for the local institutional sector;
- Litex Juice (2001 sales of \$7.0 million) - production of fruit and vegetable juices;
- Storko (2001 sales of \$6.0 million) - production of cans and pickles for exports and for the local retail market.

Snacks Industry

There are only a few companies which produce salty snacks in Bulgaria. The largest salty snack producer is a Greek investment (Chipita Bulgaria with 2001 sales of \$20.0 million). On the other hand, consumption and demand for these products are growing. For the time being, this strong demand has stimulated imported products but not local investment. The largest local processing companies in this sector are Chipita Bulgaria, Pobeda Plovdiv (2001 sales of \$8.3 million) and Royal Foods Holding (2001 sales of \$2.0 million).

Current Trends in the Food Industry

- The most clearly outlined trend in the food market over the past three years is introduction and marketing of new food brands. Consumers are developing brand loyalty and are looking for brands as a guarantee of good quality. Local food companies are also trying to promote local brands in foreign markets. For example, the BBB brand of natural juices and the Devin brand mineral water have moved to the U.S. market. Strong brand identity has emerged with alcohol, meat and dairy markets.

Currently, supermarket items like flour and rice are developing brand names and consumer loyalty. The key factor driving branded food labels in Bulgaria has been the development of more mature retail and HRI sectors.

- Over the past three years, Bulgarian consumers started to change their eating habits by choosing more wholesome and "environmentally clean" foods. Consumers show strong preferences towards fresh/vitamin rich foods such as the fresh fruits and vegetables vs. canned; frozen fruits and vegetables vs. canned; fresh and chilled meat vs. frozen meat; as well as diet or wholesome foods. Due to this new trend, producers have expanded their product list with "active or whole" foods (whole kernels, wheat germ etc.), specialty breads (more rye, oats, whole kernels, more soy flour) and environmentally friendly products.
- Another trend in local food habits is increasing demand for "convenience" foods; easy to prepare foods, semi-ready or semi-prepared foods, etc. A number of companies have started to produce frozen pizzas, frozen ready dinners, frozen dough, a variety of semi-prepared chicken and meat products. This is especially visible with poultry and meat products which currently are offered individually packaged or family portioned, pre-seasoned with spices, ready for BBQ; sliced and portioned sausages and salami. Currently, these processed meat products occupy the largest and most expensive shelf space in supermarkets. This trend has started with fresh salads as well. New salad products include sliced vegetables packaged in individual or family packages; or several whole vegetables combined by portion size.
- An increasing number of Bulgarian manufacturers started to produce foods which have previously been available only as imports. Such examples are baby foods (Ganchev Co.); spices, tea, additives (Mercurii Ltd.); frozen fruits and vegetables (Kenar-Zare, Magre, Storco, Jugo Plod, Royal Potatoes); and semi ready bakery products (Miss Caprice, Bella, Samex, Nilana).
- Over the past three years (1999-2002), consumption of bread, bakery products and cereals has declined by 6.0 percent, from 105 kilos per capita per year to 98.6 kilos, respectively. This is a very unusual trend since Bulgaria is known for its traditionally high bread consumption and bread is the number one staple product (and the most politically sensitive food). This change is related to the changes in living standards and life styles of the urban population. In rural areas, this lower bread consumption is still not present. In urban areas, the demand for brown breads is increasing. Consumers value freshness most, especially if the bread is just baked "on the spot" in the supermarket outlets. The market share of so-called specialty breads reached 11 percent over the past three years.
- Another trend is a decline in consumption of fluid milk, by 8.4 percent, and higher

consumption of yogurt. This trend is due to the greater variety and types of yogurt. Yogurt also has a better quality reputation and better marketing and promotion. Other products which are enjoying higher demand are meat and fish, up 4-5 percent; cheese, consumption increased by 1.7 percent; eggs, growth by 2.9 percent; fruits, increase of 5.1 percent; and vegetables, by 1.3 percent. There was a significant growth in consumption of mineral water and natural juices by 9.2 percent. These changes in consumption are related mainly to increased incomes and changing life styles.

- Development in the food industry over the next three years will be determined mainly by the changes in eating habits of the urban population. These are consumers of "active age" who have the highest disposable income. These consumers prefer "convenience" foods; do not make home-prepared foods; and buy wholesome products and frozen products.

Table # 4. Average annual consumption of major food products per capita in households for the period 1996-2002

Average annual consumption of major food products per capita in households for the period 1996-2002							
Food products	Measure	1998	1999	2000	2001	2001	Average growth in percent
Bread and cereals	kilograms	143.4	140.6	134.8	133.1	130.2	-2.4
Dry beans	kilograms	3.9	3.9	3.6	3.7	3.9	+0.1
Meat	kilograms	21.1	23.3	22.1	20.9	22.7	+2.1
Meat products	kilograms	10.4	12.0	11.4	10.4	10.9	+1.6
Fish and seafood	kilograms	3.0	3.3	3.3	3.3	3.5	+4.0
Vegetable Oil	liters	12.3	12.2	11.7	12.1	12.3	0.0
Sugar	kilograms	8.7	8.7	8.4	8.4	8.6	-0.3
Confectionary	kilograms	1.8	2.1	2.0	1.8	2.0	+3.3
Fluid Milk	liters	31.6	31.4	28.9	27.7	21.9	-8.4
Yogurt	kilograms	20.0	22.2	22.1	21.9	24.7	+5.6
Cheese	kilograms	9.3	9.6	9.2	9.2	9.9	+1.7
Butter	kilograms	0.5	0.5	0.4	0.4	0.4	-5.0
Eggs	numbers	123.3	123.9	127.4	128.5	138.1	+2.9
Vegetable	kilograms	58.5	58.6	57.4	59.5	61.6	+1.3
Potatoes	kilograms	26.4	26.9	26.3	26.9	28.2	+1.7
Fruits	kilograms	34.9	42.2	34.6	30.4	39.4	+5.1
Alcohol	liters	21.1	19.6	17.1	18.2	18.5	-3.0
Source: National Statistical Institute							

Please, note that the above table represents only consumption of foods purchased by retail outlets since the methodology used by the National Statistical Institute (the official statistical

source) is not suitable for estimates of total food consumption. On average, foods consumed at the food service sectors contribute about 20 to 30 percent to total food consumption. These figures vary significantly depending on the product, whether there are urban/rural consumers, and by income etc.

Competition and the best prospects for food products

- These is a significant increase in consumption of frozen foods such as fruits, vegetables and semi-prepared meals. According to a survey done in 2003, 30 percent of households regularly use and buy frozen food vs. 10 percent in 1999.
- According to the Soft Drink Manufacturers' Association, there is growth in sales and consumption of bottled water, natural juices and hot drinks like tea and coffee. For example, the market share of bottled mineral water in 1990 was 9.0 percent while in 2001, this market share was 31.0 percent; it increased further to 33.0 percent in 2002. The market share of natural juices increased from 2.0 percent in 1990 to 6.0 percent in 2001.
- As a result of lower beef production in country, especially in early 1990, demand for veal and beef is met mainly by imports. Beef imports were higher prior to the EU "mad-cow" crisis at \$32 million (26,000 MT) in 1998 but dropped to \$15.0 million (21,000 MT) in 2002. Demand is stable with growth prospects for certain HRI cuts such as T-bone steak. Major suppliers of beef in 2002 were Argentina, Brazil and Uruguay.
- Demand for pork has also increased as imports grew from \$7.1 million (6,500 MT) in 1998 to \$17.0 million (17,000 MT) in 2002. Major suppliers of pork in 2002 were France, Canada, Denmark and the United States.
- Local consumption and demand for poultry meat has increased by 21 percent in 2002 vs. 2001. As a result, poultry imports registered growth of 28 percent to total 10,000 MT in 2002. In high demand are chicken leg quarters and turkey quarters and drumsticks. Turkey is used mainly for processing, 80 percent, and for direct consumption, 20 percent.
- There is a new trend toward increased consumption of rabbit meat. Rabbit meat is also offered in the HRI sector. According to local trade, it is forecast to have good future prospects. Local production is estimated at 1,800 MT of which 400 MT or 22 percent are sold via the retail chain, about 70 percent are sold via the HRI sector and 8 percent is used as on-farm consumption.
- Rice consumption is also growing. Local rice consumption in 1998 was estimated at 5.6 kilos per capita per year; and at 5.9 kilos in 2002. Rice is imported from China,

Egypt, Vietnam, Greece and Italy. Recent trends show strong demand for long type rice. The most popular type of rice is medium round grain rice sold via retail chains. The most popular rice in HRI sector is grain parboiled long. In general, the HRI sector accounts for 15 percent of total rice consumption.

- Higher consumption of margarine in recent years is due to the fact that consumers perceive this product as healthier since it is of plant origin. Imports of margarine in 1998-2002 leveled off around \$7.0 million.